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### LOK SABHA

The following Bill was introduced in the Lok Sabha on 2nd May, 1956:—

BILL\* No. 33 OF 1956

*A Bill further to amend the Reserve Bank of India Act, 1934.*

BE it enacted by Parliament in the Seventh Year of the Republic of India as follows:—

1. (1) This Act may be called the Reserve Bank of India (Amendment) Act, 1956.

Short title  
and com-  
mencement.

5 (2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint, and different dates may be appointed for different provisions of this Act.

2 of 1934. 2. In section 8 of the Reserve Bank of India Act, 1934 (hereinafter referred to as the principal Act),— Amendment of section 8.

10 (a) in sub-section (1),—

(i) clause (b) shall be omitted;

(ii) in clause (c), for the word “six”, the word “ten” shall be substituted;

15 (b) for sub-section (6), the following sub-section shall be substituted, namely:—

62 of 1948. 20 “(6) Out of the six Directors, first nominated under clause (c) of sub-section (1) as in force immediately after the commencement of the Reserve Bank (Transfer to Public Ownership) Act, 1948, two shall retire at the end of one year, two at the end of two years and the last two at the end of three years, the Directors so to retire being determined by lot.

\*The President has, in pursuance of clause (1) of article 117 of the Constitution of India, recommended to Lok Sabha the introduction of the Bill.

Out of the four Directors, first nominated after the commencement of the Reserve Bank of India (Amendment) Act, 1956, under clause (c) of sub-section (1), such nomination having been made by reason of the fact that the number of Directors to be nominated under the said clause has been increased, two shall retire at the end of one year and the other two shall retire at the end of two years, the Directors so to retire being determined by lot."

Omission of section 9.

3. Section 9 of the principal Act shall be omitted.

Amendment of section 10.

4. In section 10 of the principal Act,—

(a) in sub-section (1), the words "or a member of a Local Board" shall be omitted;

(b) in sub-section (2), the words "or members of the same Local Board" shall be omitted.

Amendment of section 11.

5. In section 11 of the principal Act,—

(a) in sub-section (1), the words "or any member of a Local Board" shall be omitted;

(b) in sub-section (2), the words, brackets and letter "clause (b) or" shall be omitted;

(c) in sub-section (3), for the words "and the Central Board shall remove from office any member of a Local Board, if such Director or member", the words "if such Director" shall be substituted;

(d) in sub-section (4),—

(i) the words "or member of a Local Board" shall be omitted;

(ii) for the words "either as Director or as member of a Local Board", the words "as Director" shall be substituted;

(e) in sub-section (5),—

(i) the words "or member of a Local Board" occurring twice shall be omitted;

(ii) the words "or member of the Local Board" shall be omitted;

(f) in sub-section (6), the words "and a member of a Local Board may resign his office to the Central Board" shall be omitted.

Amendment of section 12.

6. In section 12 of the principal Act, sub-section (3) shall be omitted.

7. In section 19 of the principal Act, after the figures "18", the figures "42" shall be inserted. Amendment of section 19.

8. In section 33 of the principal Act,—

Amendment of section 33.

5 (a) for sub-section (2), the following sub-section shall be substituted, namely:—

10 " (2) Of the total amount of the assets, the amount of gold coin or gold bullion and the amount of foreign securities shall not at any time be less than one hundred and fifteen crores of rupees and four hundred crores of rupees respectively in value. ";

(b) in sub-section (4), for the figures "8.47512", the figures "2.88" shall be substituted.

9. For section 37 of the principal Act, the following section shall be substituted, namely:— Substitution of new section for section 37.

15 "37. Notwithstanding anything contained in the foregoing provisions, the Bank may, with the previous sanction of the Central Government, for periods, not exceeding six months in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding three months at a time, hold as assets foreign securities of less amount, in value than that required by sub-section (2) of section 33: Suspension of assets requirements as to foreign securities

20 Provided that the amount of foreign securities so held shall not at any time be less than three hundred crores of rupees in value."

25 10. In section 42 of the principal Act,—

Amendment of section 42

(a) for sub-section (1), the following sub-sections shall be substituted, namely:—

30 (1) Every bank included in the Second Schedule shall maintain with the Bank an average daily balance the amount of which shall not be less than five per cent. of the demand liabilities and two per cent. of the time liabilities in India of such bank as shown in the return referred to in sub-section (2):

35 Provided that the Bank may, by notification in the Gazette of India, increase the said rates to such higher rates as may be specified in the notification so however, that the rate shall not be more than twenty per cent., in the case of demand liabilities and more than eight per cent., in the case of time liabilities.

*Explanation.*—For the purposes of this section,—

(a) 'average daily balance' shall mean the average of the balances held at the close of business on each day of a week;

(b) 'week' shall mean the period from Saturday to the following Friday, both days inclusive;

(c) 'liabilities' shall not include the paid-up capital or the reserves, or any credit balance in the profit and loss account of the bank or the amount of any loan taken from the Bank, the State Bank, or any other bank notified by the Central Government in this behalf.

(1A) Notwithstanding anything contained in sub-section (1), the Bank may, by notification in the Gazette of India, direct that every scheduled bank shall, with effect from such date as may be specified in the notification, maintain with the Bank, in addition to the balance prescribed by or under sub-section (1), an additional average daily balance the amount of which shall not be less than the rates specified in the notification, such additional balance being calculated with reference to the excess of the demand and time liabilities of the bank as shown in the return referred to in sub-section (2) over its demand and time liabilities at the close of business on the date specified in the notification as shown by such return so however, that the additional balance shall, in no case, be more than such excess:

Provided that nothing in this sub-section shall make it necessary for any scheduled bank to maintain with the Bank any balance which shall be more than twenty per cent. of its demand liabilities and eight per cent. of its time liabilities as shown in the return referred to in sub-section (2).

(1B) Where any scheduled bank maintains, in pursuance of a notification issued under the proviso to sub-section (1) or under sub-section (1A), any balance with the Bank the amount of which is not less than that required to be maintained by such notification, the Bank may pay to the scheduled bank interest at such rate or rates as may be determined by the Bank from time to time on the amount by which such balance actually maintained is in excess of the balance which the scheduled bank would have to maintain, if no such notification was issued:

Provided that no interest shall be payable on any such amount actually maintained as is in excess of the balance

required to be maintained by or under sub-section (1) or under sub-section (1A).";

(b) for sub-section (3), the following sub-section shall be substituted, namely:—

5 " (3) If the average daily balance held at the Bank by a scheduled bank during any week is below the minimum prescribed by or under sub-section (1) or sub-section (1A), such scheduled bank shall be liable to pay to the Bank in  
10 respect of that week penal interest at a rate of three per cent. above the bank rate on the amount by which such balance with the Bank falls short of the prescribed minimum, and if during the next succeeding week, such average daily balance is still below the prescribed minimum, the rates  
15 of penal interest shall be increased to a rate of five per cent. above the bank rate in respect of that week and each subsequent week during which the default continues on the amount by which such balance at the Bank falls short of the prescribed minimum.";

20 (c) in sub-section (3A), for the portion commencing with the words "if thereafter on the day fixed for the next return" and ending with the words "receiving after the said day any fresh deposit", the following shall be substituted, namely:—

25 "if thereafter the average daily balance held at the Bank during the next succeeding week is still below the prescribed minimum,—

30 (a) every director, manager or secretary of the scheduled bank, who is knowingly and wilfully a party to the default, shall be punishable with fine which may extend to five hundred rupees and with a further fine which may extend to five hundred rupees for each subsequent week during which the default continues, and

(b) the Bank may prohibit the scheduled bank from receiving after the said week any fresh deposit."

35 11. In clause (b) of sub-section (2) of section 46A of the principal Act,— Amc  
of section  
46A.

(a) the words "for agricultural purposes" shall be omitted:  
and

40 (b) after the words "by the Bank", the words "and such loans and advances may be made for agricultural purposes or for such other purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine" shall be inserted.

Amendment of section 58. 12. In sub-section (2) of section 58 of the principal Act, clause (g) shall be omitted.

Omission of the First Schedule.

13. The First Schedule to the principal Act shall be omitted.

Amendment of section 24 of the Banking Companies Act, 1949.

14. In sub-section (2) of section 24 of the Banking Companies Act, 1949, for the words, brackets and figures "sub-section (1) of section 42", the word and figures "section 42" shall be substituted.

10 of 1949.

## STATEMENT OF OBJECTS AND REASONS

The existing provisions in the Reserve Bank of India Act in regard to reserve requirements place a serious limitation on the ability of the Reserve Bank to regulate the expansion of currency to meet the requirements of the Second Five Year Plan. The process of planned economic development necessarily implies a certain amount of credit creation and a consequent increase in the note issue. At the same time, as a result of the same process of investment and development, foreign exchange reserves are likely to decrease. It is, therefore, necessary to vary the existing minimum currency reserve requirements. Moreover, deficit financing in the Plan may also result in a large addition to bank reserves with consequent increase in the capacity of banks to create credit. In order to control such creation of credit by banks it is necessary to grant additional powers to the Reserve Bank to regulate credit extension and to check any inflationary trend developing. It is, therefore, considered necessary to amend the Reserve Bank of India Act to achieve these objects. The Bill thus includes the following principal amendments to the Reserve Bank of India Act with a consequential amendment of a routine nature in the Banking Companies Act, 1949:—

(i) section 33(2) is being amended to provide for a minimum holding of Rs. 400 crores in foreign securities and Rs. 115 crores in gold in the Issue Department of the Reserve Bank;

(ii) section 33(4) is being amended to revalue gold at the rate agreed to by the International Monetary Fund;

(iii) section 37 is being amended to provide for the temporary suspension of assets requirements in respect of foreign security without payment of any tax to Government; and

(iv) section 42 is being amended so that the machinery of the Reserve Bank for credit control may be strengthened.

2. The opportunity to amend the Act is also being utilised to carry out certain further amendments of minor importance. One

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such amendment is to enable the Reserve Bank to make advances from the newly-created National Agricultural Credit (Long Term Operations) Fund to State co-operative banks for such purposes as are allied to or assist agricultural activities and the others are to abolish the Local Boards which have lost their importance after the nationalisation of the Bank.

C. D. DESHMUKH. •

NEW DELHI;  
*The 13th April, 1956.*

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*Notes on clauses*

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*Clause 1.*—This clause empowers the Central Government to bring the various provisions of the Act into force on such different dates as may be found convenient.

*Clauses 2 to 6.*—Clause 3 seeks to abolish Local Boards and other amendments are consequential. The Local Boards at Bombay, Calcutta, Delhi and Madras are mainly attending to the work of the Reserve Bank connected with the transfer of shares, scrutiny of claims to shares belonging to deceased share-holders, etc., with the transfer of the Reserve Bank to public ownership and the disappearance of share-holders, the Local Boards have no longer any important functions to perform.

*Clause 7.*—This amendment is consequential to the amendment of section 42 proposed in clause 10.

*Clause 8.*—The reasons for amending section 33 of the Act have been explained in the Statement of Objects and Reasons. Sub-section (2) is being amended to provide for statutory minimum reserves of gold and foreign securities in absolute terms in the place of a ratio between reserves and note circulation as at present.

Amendment of sub-section (4) provides for gold held as currency reserves being valued at 2.88 grains of fine gold per rupee as against the present valuation at the rate of 8.47512 grains.

*Clause 9.*—Under the existing section 37, the assets requirements of the Issue Department of the Reserve Bank may be suspended initially for a period of 30 days only which may subsequently be extended from time to time by periods not exceeding 15 days at a time. This clause seeks to permit such suspension initially for a period of six months which may be extended from time to time by periods not exceeding three months at a time.

The existing provision regarding payment of tax to Government when the holding of the assets of the Issue Department falls below the minimum prescribed by sub-section (2) of section 33 is being omitted as with the nationalisation of the Reserve Bank, the entire surplus profit of the Bank is payable to Government and this provision has lost its significance.

*Clause 10.*—This clause vests the Reserve Bank with the power to vary reserve requirements of scheduled banks within the range of 5 to 20 per cent., in respect of demand liabilities and 2 to 8 per cent., in respect of time liabilities and to require them to maintain additional reserves in respect of any increase in deposits with them after a specified date and the additional reserves required to be

maintained may be upto one hundred per cent. of such increase. The overall reserves so to be maintained should not, however, exceed 20 per cent. of demand liabilities and 8 per cent. of time liabilities. Within the above limits, the Reserve Bank is being authorised to prescribe ratios in such a manner as to immobilise the maximum amount of reserves necessary without at the same time adversely affecting such banks as have not participated in the rise in deposits. The clause also provides for payment of interest to scheduled banks, at the discretion of the Reserve Bank, on the additional reserves maintained by them with the Reserve Bank, but such interest is not payable if the prescribed minimum balance is not maintained.

*Clause 11.*—Under section 17 (4A) of the Act, the Reserve Bank is authorised to make loans and advances from the National Agricultural Credit (Long Term Operations) Fund established under section 46A. Such loans and advances include medium-term loans to State co-operative banks for agricultural purposes, as specified in sub-section (2) (b) of section 46A. It is doubtful whether under section 46A (2) (b), the Reserve Bank can make any advances to State co-operative banks, even in proved cases of necessity, to enable them to lend to small and medium cultivators for such purposes as are allied to or will assist agricultural activities, such as purchase of shares in co-operative societies and concerns. This amendment is intended to remove the doubt by enlarging the scope of sub-section (2) (b) of section 46A in order to enable the Reserve Bank to make advances for such purposes.

*Clauses 12 and 13.*—These clauses are consequential amendments arising out of the abolition of Local Boards.

*Clause 14.*—This clause amends section 24 of the Banking Companies Act, 1949, and is consequential to the amendment of section 42 of the Reserve Bank of India Act.

M. N. KAUL,  
Secretary.